



# INTERNAL AUDIT TERMS OF REFERENCE

PRODUCED BY THE HEAD OF INTERNAL AUDIT  
SUBJECT TO ANNUAL REVIEW

APPROVED BY:

- SBC: CORPORATE MANAGEMENT TEAM: MARCH 2011
- SBC: AUDIT COMMITTEE: MARCH 2011
- CPBC: EXECUTIVE MANAGEMENT TEAM: MARCH 2011
- CPBC: AUDIT COMMITTEE: MARCH 2011

## INTERNAL AUDIT: TERMS OF REFERENCE

### ACCOUNTABILITY

Councils are responsible for maintaining an adequate and effective system of internal audit of their accounting records and system of internal control in accordance with the proper practices in relation to internal control (the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006)).

### RESPONSIBILITY

Therefore Internal Audit is primarily an assurance function. Its purpose is to provide an independent and objective annual opinion on the adequacy and effectiveness of the whole system of internal control that contribute to the achievement of the Council's business objectives (including that relating to partnership working).

An internal control system encompasses the policies, processes, tasks, behaviours and other aspects of an organisation that, taken together:

- facilitate its effective and efficient operation by enabling it to respond appropriately to significant business, operational, financial, compliance and other risks to achieving the Council's objectives. This includes the safeguarding of assets from inappropriate use or from loss and fraud and ensuring that liabilities are identified and managed;
- help ensure the quality of internal and external reporting. This requires the maintenance of proper records and processes that generate a flow of timely, relevant and reliable information from within and outside the Council;
- help ensure compliance with applicable laws and regulations, and also with internal policies with respect to the conduct of business.

Internal Audit achieves this by evaluating the effectiveness of the control environment (which consists of governance, risk management and operational controls) in mitigating exposure to potential or actual business risks.

Governance is about how bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It comprises the systems and processes, and cultures and values, by which bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

Commitment to this is demonstrated through the Council's aims and priorities.

The manner in which the Council achieves good governance is set out in **Appendix 1, Annual Governance Statement Framework.**

Internal Audit supports management by recommending improvements to the systems of internal control that help protect the business and its assets and assists in the efficient and effective use of resources. In doing this, it supports the delivery of all Council aims and priorities.

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### **AUDIT STRATEGY & RESOURCES**

The Head of Internal Audit produces an annual audit strategy, which outlines how the service will be delivered (in accordance with this document), in support of the Council's aims and priorities. In producing the audit plan, account is taken of potential control risks identified. A needs assessment is then produced that determines resources and skills required to deliver the strategy.

### **INDEPENDENCE & CONFIDENTIALITY**

In each sector, auditors are required to comply with a set of professional standards. For the Councils' teams, these are set out in CIPFA's Code of Practice for Internal Audit in Local Government in the UK 2006 in which:

- standard 2 covers audit independence
- standard 3 covers ethics for internal auditors (refer to Strategy)

Internal Audit should be independent of the activities it audits to maintain impartiality and enable effective professional judgements and recommendations to be made.

Audit advice and recommendations are given without prejudice to Internal Audit's right's to review and make further recommendations on the relevant policies, procedures, controls and operations at a later date.

The status of Internal Audit should enable it to function effectively. Therefore:

- the Head of Internal Audit should have direct access to, and freedom to report in her name, to all officers and members particularly those charged with governance. Internal Audit should be managed by a member of the most senior officer management team
- sufficient budgetary resources should be made available to enable required professional standards to be met and sufficient work to be completed on which to base the annual audit opinion in support of the Governance Statement
- the Head of Internal Audit should have the freedom to determine priorities in consultation with management and the Audit Committee
- internal auditors sign a declaration of interest that is reviewed annually. This is taken into account when allocating individual audit assignments. Any internal audit contractors should not provide the Council with non-audit services.

Appropriate accommodation should be provided to enable Internal Audit to comply with professional standards regarding confidentiality.

### **POWERS OF INTERNAL AUDITORS**

Whilst carrying out their duties, Internal Auditors should have the authority to:

- *PREMISES*: Enter, at any reasonable time, any premises or land owned, leased or controlled by the Councils

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- *DOCUMENTS*: Examine all records, documents, correspondence or information held by employees, members, or other third parties, pertinent to their audit work
- *EXPLANATIONS*: Obtain such information and explanations from any employee or member as necessary concerning their audit work to enable them to fulfil their duties
- *PROPERTY*: Require any employee (and by arrangement any partner employee or contractor) to produce for examination, Council assets (including cash) under their control.

Equivalent powers should be built into all partnership agreements and contracts.

### **FRAUD AND CORRUPTION**

As part of its assurance work, Internal Audit has access to a record of all suspected or detected fraud, corruption or impropriety, and uses this to inform the opinion on the internal control environment and in developing its work programme.

Although outside its core remit, Internal Audit also takes the lead in helping management to embed an anti fraud and corruption culture to further mitigate this risk. Internal Audit also undertakes ad hoc investigations and supports investigations into allegations of fraud and corruption as required.

### **GRANT CLAIM WORK**

Requests for Internal Audit to audit / give an opinion on the use of grant funding falls outside the core work required to support the Head of Internal Audit's annual audit opinion.

This work is undertaken if either in house staff resources are available or funds are provided to purchase additional audit cover.

### **CONSULTANCY WORK**

Internal Audit will also, where resources and the skills exist, provide additional services such as consultancy work.